

Blue Ribbon Commission on Transportation Administration Committee

Final Meeting Summary *Approved August 20, 1999*

July 16, 1999

Present: Doug Hurley, Chair, Peter Bennett, Vice Chair, Greg Devereux, Representative Ruth Fisher, Tomio Moriguchi, Connie Niva, Patricia Notter, Senator Dino Rossi, Ken Smith, Judie Stanton

Absent: Bob Dilger

Speaker: Jonathan Brock (University of Washington)

Others in Attendance: Jim Ajax (City of Wenatchee - Public Works), Jeremy Battis (City of Bellevue), Jerry Fay (Transportation Improvement Board), Terry Finn (Port of Seattle), Jack Locke (City of Auburn), Jim Markus (King County Department of Transportation), Chris Mudgett (County Road Administration Board), Alice Ostdiek (University of Washington), Charlie Shell (City of Seattle - Transportation)

The Chair called the meeting to order at 9:00 a.m. The Committee approved the summary of the June 18th meeting as drafted.

The Chair explained that, following last month's discussion of efficiencies in project delivery, the purpose of the July meeting was to look at efficiencies in operation and maintenance of transportation facilities. Accordingly, the meeting would focus on managed competition, privatization, and contracting out of transportation services and how those practices have been implemented in other jurisdictions.

Presentation by Jonathan Brock on Managed Competition

Jonathan Brock, Director of the Cascade Center for Public Service at the University of Washington's Evans School of Public Affairs, presented trends in managed competition and contracting in the public sector. Brock served as Executive Director of the U.S. Secretary of Labor's Task Force on Excellence in State and Local Government through Labor-Management

Cooperation, which produced the award-winning 1996 report, *Working Together for Public Service*. Besides reviewing studies on the issue, the Task Force visited 35 cities in 22 states, held hearings, and invited expert testimony.

Privatization of public services can take several forms. Contracting out, also called outsourcing, means the private sector is contracted to perform a service that public sector employees previously have performed. Under managed competition, private sector bids are sought for a service and then compared with a bid from the public staff that currently performs the service, with the possibility of the award going to either the public or the private sector.

Brock outlined the conventional wisdom about privatization of public services and explained the fallacies behind the conventional wisdom. For example, many assume that private sector costs are lower and quality higher. The Task Force found no widespread inherent cost advantage to contracting out; in-house cost of services can be even with or cheaper than contracting out in departments where internal systems are reformed, overhead reduced, and/or the work redesigned. Given the proper tools, public sector employees can provide high-quality services, as can private sector employees. The tools needed for change include the ability to affect how the job is done; a structure to participate in improvement decisions (particularly ensuring that front-line employees have the chance to identify potential cost savings and efficiencies); training in cost and process analysis; and strong leadership.

In 80 percent of managed competition situations, public employees win the bid. This case holds true in Indianapolis, for example, which is often cited as a prime example of contracting out. Under the leadership of Mayor Stephen Goldsmith, managed competition – with employees trained to prepare bids in competition with private sector contractors – not privatization *per se*, produced the best value for taxpayers. In transportation functions, the city realized 30 percent improvement in cost and far greater productivity improvements. Reengineering of the relationship between labor and management was key to this success.

While recognizing that managed competition of public services can be controversial and divisive for labor and management, the Task Force found that the subject can be approached fruitfully if attention is given to the following issues:

- Availability of adequate financial and performance data to measure both cost and quality. Brock stressed the significance of accurate data collection. If budget data are collected by line item, for example, it is difficult to measure accurately the costs of service. Accurate data are essential for determining whether a bid or performance represents an improvement in cost or quality.
- The importance of a level playing field with clear ground rules – not only concerning cost comparison methodology, but also affording the public employees an effective opportunity to demonstrate their ability to deliver cost-effective and high-quality services.

- The presence of a “safety net” if changes or reductions in job positions result.

The Committee discussed the impetus behind the introduction of managed competition elsewhere. Charismatic leadership, with strong labor-management cooperation, helps. It is also easier to make legislative changes, as would be required in Washington State, away from the glare of the legislative session. Jonathan Brock suggested that mediated negotiations between labor and management can be useful to achieve the full potential of managed competition and resolve issues about collective bargaining. He also noted that starting with a pilot program would be preferable. In the Task Force experience, the biggest reforms have come from considering particular services and setting service improvement goals. In many cases, after a couple of years, other reforms have been implemented, such as changes in personnel classification systems, because they have proven to be barriers to improvement.

Committee members generally acknowledged the importance of accurate measurements. Brock noted that agreement on what to measure and how to measure it helps to reduce the emotion and fear associated with moving to a managed competition environment. The Committee also discussed how savings generated from managed competition and other efficiencies might be reallocated for transportation improvements. Typically, when efficiencies save dollars, departmental budgets get cut accordingly, because people want to see total savings. Is there a way to reallocate savings to cover other needs? In our capital-short environment, can we move efficiency savings into the capital budget, rather than cut the operations and maintenance budget?

The Committee also discussed how to convey the message to the public when significant accomplishments are made in terms of efficiency savings. It helps if the accomplishment is tangible and immediate, something that can be seen and used. For example, people were happy with the speedy repaving of I-405 on the weekends. Yet often the press does not cover the good news about improvements. Perception matters; the public needs confidence that taxpayer dollars are being spent well before the Legislature will want to budget more for transportation improvements.

Jonathan Brock provided copies of *Working Together for Public Service* to Committee members and attendees at the meeting. Not wishing to curtail the spirited Committee discussion, the Chair decided not to present the videotape of the Indianapolis experience with managed competition, which had been on the agenda. The videotape is available on request for Committee members to view, as are copies of the text of Jonathan Brock’s presentation.

Next Meeting

The next Committee meeting is scheduled for **Friday, August 20**, in the Logan Room of the SeaTac Holiday Inn. It will include presentations on efficiencies underway at WSDOT and a discussion of Administration Committee findings in preparation for the Commission’s September retreat.

The meeting was adjourned at 12:00 p.m.